General Services Administration
Office of General Counsel
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August 2, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Subject: Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

Enclosed please find the original and six (6) copies of the General Services Administration's Comments for filing in the above-referenced proceeding.

Sincerely,

Michael J. Ettner

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division

Enclosures

cc: International Transcription Service
Ernestine Creech

0+6

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45

COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

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August 2, 1996

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Summary

In these Comments, GSA answers only those questions posed by the Common Carrier Bureau that relate to the interests of GSA and other Federal Executive Agencies as consumers of telecommunications and that are not mooted by GSA's basic policy positions.

GSA urges the Joint Board and the Commission to adopt a program of universal service support based on the average per-line book costs of the COLR in high-cost areas no smaller than a wire center. Universal service support should not depend on the regulatory status of the recipient carrier.

No proxy cost model should be adopted to estimate the per-line costs in high-cost areas unless it can replicate broadly and without bias the costs that carriers actually incur in serving those areas under a variety of geographic, demographic and environmental conditions. GSA submits that no such model exists, nor can one be developed and tested within the time frame envisioned by the Act.

The Act's requirement to maintain comparable rates between rural and urban areas does not involve costing, but rather the establishment of minimum and maximum rates for rural areas based on the lowest and highest rates charged to urban subscribers for core services within each RBOC region.

Universal service support should be awarded to carriers willing to assume the status of COLR in each high-cost area. Any alternative procedure would either distort competitive relationships among carriers or be infeasibly complex.

The CCL charge should be eliminated, to be replaced by a nationwide residential SLC with transfer payments between carriers serving low-cost and high-cost areas. Any remaining shortfall in the Federal Universal Service Fund should be recovered through a uniform surcharge on interstate charges net of intercarrier payments.

Finally, GSA recommends that Lifeline and Linkup programs be supported through the Federal Universal Service Fund.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the "customer interests" of the Federal Executive Agencies, submits these Comments in response to the Commission's Public Notice ("Notice"), DA No. 96-1078, released July 3, 1996. In this Notice, the Commission requested further comments on specific issues relating to the subjects previously noticed in this proceeding.[1] In these Comments, GSA answers only those questions posed by the Common Carrier Bureau that relate to the interests of GSA and other Federal Executive Agencies as consumers of telecommunications and that are not mooted by GSA's basic policy positions.

I. Introduction

While GSA recognizes the critical public policy importance of all of the questions posed in the Notice, it recognizes that a number of the topics do not directly affect GSA as

[1] Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking Order Establishing Joint Board, CC Docket No. 96-45, FCC 96-93 released March 8, 1996 ("NPRM").

a large commercial user of telecommunications services. The initial five questions, for example, deal with the definition of "affordability," and the subsequent 20 questions concern services to schools, libraries and health care providers. While Federal agencies may have views on these topics, they do not fall within the purview of the "customer interests" of the Federal Executive Agencies as GSA has traditionally interpreted them. For this reason, GSA declines to comment on questions 1 through 25.

Additionally, there are other question in the Notice that are effectively mooted by the basic positions taken by GSA. For example questions 57 through 68 address the implementation of the two principal proxy models that have been proposed for the identification of high-cost areas suitable for universal service support. Since GSA does not believe that proxy models can offer viable measures of costs for purposes of establishing universal service support, GSA regards these questions as irrelevant.

The following questions and responses touch upon areas where GSA believes that the interests of Federal Executive Agencies as consumers of telecommunications services, are directly affected.

II. <u>Responses to Questions</u>

26. <u>If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?</u>

The Telecommunications Act of 1996 ("Act") requires the following modifications in the existing high-cost support mechanism:

1. High cost support should no longer be limited to high-cost carriers, but should be distributed based on high-cost areas, defined geographically as wire centers (areas served by a single switching end office) or larger at the option of the applicant carrier. By eliminating implicit intra-carrier support for high-cost areas, this change would comply with the requirement in §254(e) of the Act that any support to rural, insular and high-cost areas be explicit.

2. Pursuant to §254(c)(1) of the Act, universal service must be defined as a specific set of subservices. GSA has supported the Commission's tentative list:

   - Voice grade access to the public switched network, with the ability to place and receive calls;
   - Touch-tone;
   - Single party services;
   - Access to emergency service (911); and
   - Access to operator services.

   To this list, GSA recommends the addition of access to or blocking of interexchange services.[2]

3. While providers of universal service in high-cost areas would be eligible for support in accordance with the present sliding scale in §36.631 of the Commission's rules, providers in low-cost areas, where residential subscriber line costs are less than 85 percent of the national average urban residential subscriber line cost, would contribute 90 percent of the amount below 85 percent to an interstate Universal

[2] See April 12, 1996 Comments of GSA, pp 7-8.

Service Fund.[3]

4. Consistent with the requirements of §254(d) of the Act, any remaining shortfall in the interstate Universal Service Fund would be recovered from all interstate carriers based upon their proportional share of all interstate revenues net of interstate payments to other carriers.

27. <u>If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?</u>

If the changes recommended in the response to question 26 are implemented, high-cost support will be targeted to specific study areas as small as wire centers. Support will not be based on the rural nature of the telecommunications provider (although rural providers may qualify), but rather on the demonstration that costs are high in specific rural areas. The proposal to draw support from low-cost regions to maintain service in high cost areas is consistent with the policy enunciated in §254(b)(3) of the Act that consumers in rural, insular and high-cost areas should have the same access to telecommunications services as in urban areas and at reasonably comparable rates.

28. <u>What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?</u>

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[3] <u>Id</u>., p. 13.

GSA does not support the proposal to provide payments to carriers other than Carriers Of Last Resort ("COLRs"), COLRs being carriers that are committed to provide service to all businesses and residences in a high-cost service area regardless of the cost to reach them. This is because universal service support is to be provided on a study area basis (which GSA believes should be no smaller than a wire center) and not on a per-line basis. Competitors should not be allowed to "cherry pick" the lowest cost lines within high-cost areas and then claim universal service support payments for them.

Since the initial COLR will be the incumbent local exchange carrier in most instances, support payments appropriately should be based on that carrier's book costs.

However, GSA also supports the concept of allowing states to conduct competitive bidding for universal service support. If a competitor believes it could fulfill the COLR obligations in a given high-cost area for a lower subsidy than the incumbent carrier, it should be allowed to assume COLR status and receive support payments. In such cases, universal service support would reflect the competitive carrier's bid, and not the book costs of any carrier.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of Section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

The eligibility of any carrier for universal service support should not depend on its regulatory status, but rather on its assumption of COLR obligations. High-cost support should be structured no differently for price cap carriers than for any other category of carriers.

Necessarily, this principle requires that price cap carriers seeking to receive high-cost support will have to identify the cost of local service in the high-cost areas they serve. While this requires these carriers to conduct costing, it does not return them to cost-based ratemaking. The requisite costing is limited to specific high-cost areas, and it does not imply a requirement for system-wide, or even service-wide costing. In the view of GSA, costing of exchange services is a necessary corollary to the implementation of support for high-cost universal service.

31. <u>If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?</u>

As noted in response to question 30, GSA does not believe that a "bifurcated" plan should be employed. High-cost support should be indifferent to the rural or urban nature of the recipient company.

32. <u>If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?</u>

The policy positions enunciated by GSA in response to the previous and to subsequent questions render response to this question moot. GSA does not believe that a bifurcated approach should be used. As discussed subsequently, GSA does not believe that a proxy system is feasible or efficient.

35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data." US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint Board's recommended decision.

GSA does not believe that the submitted proxy models accurately reflect all of the geographic, demographic and environmental factors that account for high local telephone service costs. A proxy model that does not accurately reflect all factors causing high costs would almost certainly award support to telecommunications carriers that do not incur high costs in the provision of universal service. This result would contravene the objective of §254(e) that Federal universal service support shall be used only in the provision, maintenance and upgrading of facilities for which such support is intended. Alternatively, an inaccurate proxy model would withhold support from other carriers that do experience high costs in providing universal service. That result would contradict the intent of §254(b)(3) to ensure that consumers in rural, insular and low-cost areas have access to basic services designated for support.

Even if an accurate model exists, it is inconceivable that consensus could be reached as to the model assumptions within the time frame envisioned by the Act. If the Joint Board or the Commission requests model assumptions, the alternatives are likely to match the number of parties offering them. For a consensus to be reached, there would have to be some sort of negotiation or arbitration procedure to identify the mutually acceptable model assumptions and to reject those that fail the test of consensus. Such a procedure does not now exist and would be difficult to implement within the time frame prescribed by the Act.

Finally, if consensus assumptions could be identified, they would have to be tested against the actual experience of telecommunications carriers in high-cost areas. The only acceptable proxy model would be one that replicates with some degree of accuracy the actual costs -- either book costs or incremental costs -- of carriers providing universal service.

To verify this condition, the model would have to generate hypothetical costs for a wide variety of rural, insular and high-cost areas. These costs would then have to be compared to the experienced costs of the carriers currently providing service in these areas, and then only for the services covered by universal service support. The calculated and the actual costs need not match exactly, but the variations between them would have to be subjected to sophisticated statistical testing to ensure that they do not result in systematic cost overstatements or understatements in response to alternative geographic, demographic and environmental conditions.

This testing process, without which no proxy model can be adopted, would be complex, time-consuming and possibly controversial. It is inconceivable that it could be accomplished within the time frame for universal service support contemplated by the Act.

40. <u>If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as</u>

required in Section 254(b)(3) of the 1996 Act.

If a proxy model were used, it would only be used to calculate the support payments to the designated COLR providers in high-cost areas. GSA recommends that carriers in low-cost areas make contributions to the Federal Universal Service Fund equivalent to 90 percent of the interstate portion of all subscriber line costs (equal to Subscriber Line Charge revenues) that are less than 85 percent of the national average urban subscriber line cost. If a proxy model were used, it could calculate these contributions as well.

The referenced requirement in §254(b)(3) has nothing to do with costs. Rather, it concerns the comparability of rates. Its enforcement is therefore independent of the procedure used to identify costs. In its comments of April 12, 1996 (at pp. 9-10), GSA outlined its recommendations for implementing this provision of the Act. Specifically, GSA proposed that the minimum rural rate be established in each Regional Bell Holding Company ("RBHC") region as the average of the lowest ten percent of urban rates (weighted by subscribers) that cover all core universal service features. Similarly, the maximum rural rate in each RBHC region would be the average of the highest ten percent of rates paid for universal services in the urban areas of each region.

Notably, this recommendation could be implemented quite independently of the costing procedures used to establish support from or contribution to the Federal Universal Service Fund.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver

allowing alternative treatment? What standards should be used when considering such requests?

As noted in the response to question 35 above, no proxy model should be adopted unless it generally replicates the actual costs incurred by carriers currently providing core universal services in high-cost areas. If this standard is met, there should be few, if any, examples of carriers with book costs substantially above proxy costs. Indeed, the presence of such carriers would indicate a failing of the model.

GSA does not believe that a proxy model meeting this criterion can be constructed. The inevitable appearance of "outliers" will pose an almost intractable problem to the Commission. Are the carriers outliers because they are inefficient and unproductive, or because they have unusually difficult and costly operating or environmental conditions not captured by the model? Each carrier would have to be analyzed individually using criteria that defy generalization. The support decisions will inevitably require largely subjective judgments.

That is why GSA recommends rejection of the proxy concept and adoption of book costs as the basis for universal service support. The weakness of the book cost approach is that it could reward inefficient operations that incur unusually high costs. However, the practice of compensating carriers only partially for their high costs should provide the necessary incentive to maintain efficiency without jeopardizing universal service.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

As noted, GSA opposes the use of proxy models. However, if a proxy model is to be used, it should be a public document. The model would not calculate the actual costs of the carriers, but only their proxy costs It could not, therefore, be a medium through which company proprietary cost information could be disclosed to competitors.

49. <u>How would high-cost payments be determined under a system of competitive bidding in areas with no competition?</u>

GSA interprets this question as seeking views on how high-cost payments would be determined if competitive bidding becomes the prescribed mechanism for establishing universal service support payments. If this is the intent of the question, it effectively answers itself. Competitive bidding is feasible only if there are multiple carriers prepared to assume the COLR obligations currently borne by the incumbent local exchange carrier. GSA suspects that such competitors are present only in a minority of the high-cost areas, which is why competitive bidding cannot be the prescribed mechanism for establishing universal service support.

This situation may change, however. The wireless carrier industry, still in a state of development, may furnish viable contenders for the COLR functions now provided by the incumbent local exchange carriers. That is why the Commission should authorize -- but not require -- the states to use competitive bidding to designate the recipients of universal service support.

50. <u>How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?</u>

Competitive bidding is beneficial only if it supports universal service, minimizes the level of support payments, and maintains competitive neutrality. To accomplish all three of these objectives, it is necessary to limit the award of universal service payments to only COLRs in each high-cost area. COLRs must commit to provide service to all residents and businesses within the area regardless of cost. In return for this commitment, the carrier is awarded universal service support based on the average cost of all lines in the high-cost area.

Realistically, this provision will limit the feasible contenders for universal service support in most locations to the incumbent local exchange carrier. Few new entrants, without subscriber access facilities in place, will be in a position to challenge the incumbent's entrenched position as the COLR provider. As a practical matter, it will be difficult to attract competing bidders for COLR status in high cost areas.

The alternative is to offer universal service support to non-COLR bidders in each high-cost region. While this approach might attract more bidders, it would either fail the test of competitive neutrality or it would be infeasibly complicated to administer.

To illustrate, assume that universal service support is available to multiple firms, but that it does not carry with it the COLR obligation. If the present system of basing universal service support on average study area per-line costs (modified as noted in response to question 26) is maintained, then a competing firm could underbid the incumbent in a high-cost area by offering to accept lower per-line support, but then it could decline to serve the high-cost lines. Rather, the new carrier would cream-skim the lowest cost lines in the area. Such a result would destabilize the competitive balance, as the incumbent, which is left with the high-cost lines, receives less support, while its competitor is subsidized to provide the lowest cost services.

The only alternative would be to bid for universal service on a per-line basis, so that each competitor would receive compensation only for the universal service lines it provides. This would be inordinately complex, as it would require separate bidding for each and every line, or at least for very small aggregates of lines. GSA submits that this refinement of competitive bidding is infeasible.

51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?

The objective of universal service support should be to subsidize access to core services, not to subsidize competition. For this reason, GSA favors the award of support to only carriers in each high-cost area assuming full COLR obligations.

The universal service support mechanism should not threaten competition as long as it is provided on the basis of average per-line costs in high-cost areas. Competitors of the recipient of this support will be free to seek out the market niches where they can provide service at lower costs. Realistically, such competitors will not attempt to challenge the COLR provider for service over the highest cost lines that are responsible for the support payments. These lines will continue to be served by the incumbent carrier until technology, possibly in the form of wireless local loops, allows other carriers to bid for COLR status.

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BMC) for the same areas?

As noted in the responses to earlier questions, this question must be answered before any proxy model can be adopted as the basis for universal service payments. Only if the calculated costs broadly approximate the actual costs of the serving carriers, with no evident biases, can a proxy model be accepted. GSA submits that no such proxy model exists, nor can one be developed within the time frame established by the Act.

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

The current Carrier Common Line ("CCL") charge recovers the portion of interstate Non-Traffic Sensitive ("NTS") subscriber line costs of each carrier not otherwise recovered in the monthly Subscriber Line Charges ("SLCs") paid by all end-use customers. To the extent that individual carriers provide subscriber lines that incur exceptionally high costs, they are supported by revenues collected through the CCL.

GSA strongly recommends the elimination of the CCL. The CCL charge is inherently inefficient and competitively distorting. The collection of NTS costs in a traffic-sensitive charge offers an invitation to interexchange carriers to by-pass the local exchange carriers for service to high-volume customers This condition applies quite regardless of the costs of the respective carriers to serve those high-volume customers.

GSA's specific proposals for eliminating the CCL were outlined in its April 12, 1996 filing (at pp.12-14). Each carrier's interstate business NTS subscriber line costs would be recovered in its business SLC. There would be no residual business NTS costs to be recovered in a CCL.

GSA recommends that all residential subscribers pay a single nationwide SLC equal to the interstate portion of the nationwide average urban residential NTS subscriber line cost. As noted in GSA's comments (p. 12), the nationwide average urban and rural interstate NTS cost per line in 1993 was $5.06 monthly. The urban line cost would be something less than this amount, possibly as low as the present $3.50 maximum.

Nationwide, urban residential SLCs would recover all of the interstate NTS costs of urban residential lines.[4] The only shortfall would reflect the difference between the average urban interstate NTS cost and the actual interstate NTS costs that carriers experience in serving rural subscribers.

This shortfall should not be recovered in a CCL. Rather, it would be collected as a percentage surcharge on the interstate revenues of all interstate carriers, net of payments to other interstate carriers. This payment mechanism conforms with the provisions of §254(d) of the Act:

> Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service.

Also, because a uniform percentage surcharge conforms to the structure of the underlying charges, it minimizes any distortion of the price signals conveyed by the carriers'

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[4] While the SLC revenues from urban residential subscribers might not match the urban residential NTS costs for each carrier, a system of intercarrier transfers, outlined on page 13 of GSA's April 12, 1996 Comments in this Docket, would offset these differences while still providing incentives for the carriers to minimize their costs.

charges for interstate services. Unlike the CCL, it does not involve the recovery of non-traffic sensitive costs in a traffic sensitive rate.

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

Please refer to the answer to question 69

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

The new universal service fund should support all programs associated with the maintenance and advancement of universal service, including Lifeline and Linkup programs. Necessarily, the Federal subsidy for Lifeline service has to be tied to the SLC, since that is the portion of the residential customer's monthly bill that is subject to Federal jurisdiction.

III. Conclusion

As the agency vested with the responsibility for acquiring telecommunications services on a competitive basis for use of the Federal Executive Agencies, GSA urges the Joint Board and the Commission to adopt a program of universal service support based on the average per-line book costs of the COLR in high-cost areas no smaller than a wire center. Universal service support should not depend on the regulatory status of the recipient carrier.

No proxy cost model should be adopted to estimate the per-line costs in high-cost areas unless it can replicate broadly the costs that carriers actually incur in serving those areas under a variety of geographic, demographic and environmental conditions. GSA submits that no such model exists, nor can one be developed and tested within the time frame envisioned by the Act.

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The CCL charge should be eliminated, to be replaced by a nationwide residential SLC with transfer payments between carriers serving low-cost and high-cost areas. Any remaining shortfall in the Federal Universal Service Fund should be recovered through a uniform surcharge on interstate charges net of intercarrier payments.

Finally, GSA recommends that Lifeline and Linkup programs be supported through the Federal Universal Service Fund.

Respectfully submitted,
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August 2, 1996

CERTIFICATE OF SERVICE

I Michael J Ettner, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 2nd day of August, 1996, by hand delivery or postage paid to the following parties:

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